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Recommendations of the Board of Auditors

UNDP and UNCDF: Report on the implementation of the recommendations of the United Nations Board of Auditors, 2016

Summary

In July 2017, the United Nations Board of Auditors formally issued its audit report for UNDP (A/72/5/Add.1) and the United Nations Capital Development Fund (UNCDF) (A/71/5/Add.2), and awarded UNDP and UNCDF an unqualified (clean) audit opinion for the year ended 31 December 2016. This is the fifth full year of reporting under the International Public Sector Accounting Standards (IPSAS), and the opinion reiterates the continuing commitment of UNDP and UNCDF to comply with IPSAS. This achievement marks 12 consecutive years of unqualified audit opinions for UNDP.

The Administrator wishes to emphasize that productivity, transparency and accountability continue to be top priorities for UNDP. The governance mechanisms and the accountability framework ensure that funds are administered with appropriate fiduciary accountability, reinforced by a commitment to new ways of working. UNDP continuously learns from and implements recommendations of its independent oversight bodies to help drive efficiency and effectiveness. For the second year, UNDP retained its top ranking in the 'Publish What You Fund' aid transparency index by increasing the quality and quantity of its project results, financial data, and documents published in 2016.

As UNDP improves its standards of organizational productivity, transparency and accountability, the strategic management of top audit-related priorities will be closely monitored, with the direct engagement of the Administrator and the Associate Administrator.

The present report reviews the progress made in addressing the top seven audit-related management priorities for 2016-2017 (presented in document DP/2017/11 and supported by the Executive Board in its decision 2017/5); and reports on the implementation status of the recommendations of the Board of Auditors for the year ended December 2016. Pursuant to decision 2010/9, details of the implementation status of the audit recommendations and the full report of the Board of Auditors are available on the UNDP Executive Board website.

Elements of a decision

The Executive Board may wish to: (a) note the unqualified audit opinions issued by the Board of Auditors for 2016; (b) note progress made by UNDP and UNCDF in addressing the top seven audit-related priorities in 2016-2017; and (c) support ongoing UNDP and UNCDF management efforts in addressing and implementing the recommendations of the Board of Auditors for the year ended 31 December 2016.

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I. Introduction

1. UNDP and UNCDF have received an unqualified (clean) audit opinion from the Board of Auditors on its financial statements for the year ended 31 December 2016. For UNDP, this marks 12 consecutive years of unqualified audit opinions – an important achievement, as it reiterates the UNDP commitment to continuous improvement in financial management, transparency and accountability. UNDP will continue to strive for greater operational excellence. The tone set at the top, by the Administrator, has been instrumental in enabling UNDP to receive unqualified audit opinions.

2. Annex 1 presents the top seven audit-related management priorities for 2016-2017. These reflect progress made on the original top priorities of previous years. The reduction in the number of top audit priorities from 15 to seven since 2006-2007 is an indication of the improved performance of UNDP offices in their efforts to deliver on the UNDP mandate. To sustain this improved level and realize additional gains, UNDP will further strengthen its proactive oversight and monitoring activities.

3. The current list of seven top audit-related management priorities was established subsequent to discussions with the Board of Auditors, the UNDP Office of Audit and Investigations, and the Audit and Evaluation Advisory Committee. The present report takes into consideration comments of the Advisory Committee on Administrative and Budgetary Questions (A/69/386) and the Fifth Committee in their respective reviews of the report of the Board of Auditors (A/72/5/Add.1) and the concise summary of principal findings and conclusions contained in the reports of the Board of Auditors for the 2016 annual financial period (A/72/176).

II. Review of progress made in addressing the top seven audit-related management priorities in 2016-2017

4. Although UNDP has moved to an annual financial audit cycle under IPSAS, UNDP considers it necessary to track progress over a two-year period by drawing on lessons learned from the two preceding years of IPSAS-based audits by the Board of Auditors.

5. Based on the findings of the Board of Auditors for the period ended 31 December 2016, and on discussions with the Office of Audit and Investigations and the Audit and Evaluation Advisory Committee, there is general agreement that encouraging progress has been made on all of the top seven audit-related priorities for the 2016-2017 period, although progress on aspects of each audit priority indicates that more work needs to be done.

6. Annex 1 contains a summary of the progress assessment of the top seven audit-related management priorities for the 2016-2017 period. The results of the internal assessment have been presented and endorsed by the Organizational Performance Group meeting, chaired by the Associate Administrator, and reviewed by the Executive Group meeting, chaired by the Administrator.

7. The following is a summary of progress made in the top seven audit-related management priorities for 2016-2017.

A. Implementing partner fiduciary and capacity management

8. This priority seeks to address the management of unique issues associated with the national implementation modality and implementation of projects through non-governmental organizations. UNDP relies heavily on regular project monitoring and compliance with the harmonized approach to cash transfers, complemented by the annual financial audits of such projects, to provide assurances on how such projects are managed.

9. To address this priority, management planned the following actions: (a) ensuring the full implementation of the harmonized approach to cash transfers, combined with capacity-building

initiatives where gaps were identified, and a change of implementation modality where an implementing partner had recurring negative audit ratings; and (b) where fraud was substantiated, pursuing full recovery of lost funds based on the actions proposed by a cross-functional task force established to improve recovery of funds lost due to fraud.

10. As of July 2017, 89 per cent of country offices had carried out macro assessments – a significant increase compared to the 72 per cent that had done so as of 31 December 2015. The volume of micro assessments has also increased, with 794 micro assessments of implementing partners completed by November 2017, compared to 224 as of March 2017. Clauses in programme agreements have been supplemented with fraud clauses on fiduciary risk management and controls.

B. Programme/project management and evaluation

11. This priority includes improving the quality of results-centred programme and project management through the Integrated Results and Resources Framework and the project-level quality assurance system; strengthened risk management of high-risk projects of the Global Fund to Fight AIDS, Tuberculosis and Malaria (GFAM); improved pace of programme and project implementation; and timely financial closure of projects and refunds to donors.

12. Planned management actions included: (a) the March 2016 roll-out of programme and project management reforms, including the new quality assurance system, with which country offices have been given one year to become compliant; (b) roll-out of the new strategy to strengthen decentralized evaluation and development of guidance; (c) tools, training and processes to address the recurring risks under sub-recipients, and procurement and supply management in GFAM projects; and (d) ensuring timely closure of projects through effective oversight and monitoring, noting that some of the challenges are occasionally due to pending actions by external stakeholders such as donors or implementing partners.

13. As of July 2017, 155 country offices have quality-assured 100 per cent of their projects; four are at over 90 per cent completion; and four are below 90 per cent completion. While progress has been made in this area, the target of 100 per cent compliance has not been reached. The new evaluation policy, adopted by the Executive Board in its decision 2016/17, aims at strengthening the evaluation function both in its institutional mission to support accountability and learning and in the quality of independent and decentralized evaluations. UNDP and the Independent Evaluation Office work to improve the quality and utility of the decentralized evaluation function and promote evidence-based programming. They strive to (a) strengthen the normative basis for evaluations; (b) support capacity development of monitoring and evaluation staff, processes and systems; (c) enhance the utility and effective use of evaluations for learning and results; and (d) establish and support national evaluation capacities. In 2016, the Evaluation Office reviewed, in 2016, the practice of quality-assessing decentralized evaluations. The Office noted, in the 2016 annual report on evaluation, that 75 per cent of the assessed evaluations had been rated 'satisfactory' or 'moderately satisfactory'. Those ratings indicate that the evaluations followed the minimum evaluation criteria stated in the yellow handbook guidance on planning, monitoring and evaluating for development results. To better understand and further strengthen the utility of decentralized evaluations, the 2016 results-oriented annual reports continued to capture feedback from country offices on the quality of evaluation recommendations and their relevance for future programming. The consolidated rating indicated that 78 per cent of the 2016 decentralized evaluations were considered 'useful' or 'moderately useful', which is a 10 per cent increase compared to the 2015 rating. The ongoing reform and rewriting of UNDP prescriptive content on programme and project management will clarify and strengthen the requirements for decentralized evaluation in line with the Quadrennial Comprehensive Policy Review, 2017-2020.

14. As a measure of progress on recurring risks, the number of Office of Audit and Investigations recommendations on GFAM audits under procurement and sub-recipient management decreased significantly, from 52 in 2015 to 23 in 2016. Country offices showed an

improvement in closing inactive projects, with a 67 per cent reduction in inactive projects by October 2017 compared to December 2016. However, performance in closing inactive trust funds worsened, increasing by 26 per cent as of October 2017 compared to December 2016. This is being addressed by management on an ongoing basis, through regular communication to country offices.

15. Inactive project and trust funds closure remains a recurring and challenging area, since external stakeholders have a role to play in the processes required for closing projects or trust funds. Further progress is needed in this area, through engagement with external stakeholders to ensure timely closure of inactive projects and trust funds. There is active follow-up with all bureaus of the organization to ensure that required actions are being taken through quarterly communication to all offices from the Chief Finance Officer. In addition, a monthly status report by the Office of Financial Resources Management/Bureau for Management Services is shared with all country offices and bureaus. Further progress is expected as bureaus develop time-bound action plans for addressing the issue by the second quarter of 2018.

C. Procurement oversight and fraud mitigation strategies

16. This priority includes enhanced procurement compliance and risk management (planning, certification, capacity assessments); and strengthened consolidated category-based procurement, with proactive investigations to mitigate risk of procurement-related frauds.

17. Planned management actions were: (a) consolidation and centralization of high-risk/ high-volume procurement to the regional hubs and the Global Shared Services Unit when the procurement capacity of an office was assessed to be low; (b) development of an action plan to improve the recoveries from fraud based on root-cause analysis; (c) development and roll-out of anti-fraud training; and (d) roll-out of the e-tendering platform to improve compliance during the bidding process.

18. To increase capacity at field level, UNDP is assigning additional procurement specialists to regional hubs for country office support, and has ensured that centralized higher-risk procurement receives top priority. UNDP has clustered the financial function in one region to improve oversight and financial control.

19. To address the implementation of recommendations from the report of the Office of Audit and Investigations on vendor management, the 'supplier of interest' project was established. The project addresses the implementation of recommendations pertaining to the centralization of vendors; monitoring and oversight; and automation of Atlas vendor management processes. The following have been completed under this project: (a) roll-out of the vendor management dashboard for monitoring the vendor database; (b) introduction of mandatory fields in creating, approving and monitoring vendors, to avoid duplication of vendors; and (c) automation of vendor archiving, to implement the vendor management audit. The Vendor Review Committee now meets regularly and has doubled the number of cases closed.

20. UNDP has launched a series of corporate tools to strengthen the procurement function. They include: (a) workbenches and a dashboard for the 'supplier of interest' project, which identifies and assists in correcting issues with payees, using Microsoft 'Power BI' data visualization software; and (b) the Procurement Management and Planning Platform ('PROMPT') 2.0, a corporate procurement planning tool that replaces static requisition plans. As of November 2017, 38 country offices are using e-tendering across five regional bureaus.

21. Further progress is needed in this audit priority, and UNDP has continued to prioritize the implementation of audit recommendations related to recurring procurement issues. Work on oversight mechanisms is under way, with a new standard operating procedure for creation of payee records in Atlas (vendor module) under review. The procedure, which includes new payee classifications and risk assessment measures, is planned for roll-out in the first quarter of 2018. As of October 2017, a review of vendor records resulted in the archiving of 269,506 of the 426,213 payees, leaving 156,707. The procurement 'risk radar' is in development and will be

launched by the end of 2017. The risk radar uses internal and external indicators to inform increased delegation of procurement authority decisions and assess local markets. Progress has been accelerated by a time-bound action plan with clear milestones to ensure that audit recommendations are implemented as agreed with the auditors.

D. Human resources management and appropriate organizational structures

22. Under this priority, UNDP seeks to ensure effective human resources management; the alignment of structures with its strategic direction; mitigation of fraud risks; and improved recovery of fraud-related losses from staff and service contractors.

23. Key planned management actions to address these concerns were: (a) establishment of a corporate compliance board to assess required action on identified fraud by staff and service contractors; (b) development of dashboards and tools to monitor compliance under key risk areas; and (c) roll-out of training for human resources practitioners.

24. In 2016, eight virtual meetings were held for the human resources community, and three regional workshops were conducted. All 160 offices are using an 'e-recruit' platform, which has improved the efficiency of recruitment. A new set of leadership development courses, launched in 2017, takes a holistic view of developing leadership capacity. Work on the business models on alignment of staff capacity for delivery of the new Strategic Plan, including skills training and new skills, will inform staff development requirements.

25. Further actions under this audit priority are required to address the alignment of staff capacity with the Strategic Plan, 2018-2021.

E. Financial management and sustainability of country offices

26. Financial accountability is a major priority for the organization as it seeks to address the following challenges: (a) financial sustainability of country offices; (b) management of advances; (c) management of banking risks; (d) accurate recording of expenditures; (e) document management for financial transactions; and (f) mitigation of fraud risks and improved recovery of fraud-related losses.

27. Key management actions planned to address the financial management issues were: (a) an enhanced strategy for cost recovery (general management support, government local office contribution collection, direct project charging implementation, strengthening of cost recovery from other United Nations organizations); (b) reducing the number of banks by concentrating banking relationships and expanding the use of electronic fund transfers for local payments; (c) carrying out a root-cause analysis of factors contributing to the main reasons for the net financial impact (inaccurate recording of expenditures and lack of supporting documents), and developing the strategies to address them; (d) establishing a corporate compliance board to assess required action on identified fraud; (e) reducing the time taken to complete investigations and improve recovery of funds lost due to fraud; and (f) improved planning and budgeting.

28. The Strategic Plan, 2018-2021, which encompasses the integrated resources plan and the integrated budget, seeks to improve financial management by streamlining business processes, sourcing and scaling up innovations in business operations, instruments, and processes for cost-effective delivery of the sustainable development goals, and focusing on sustainability with respect to the institutional component of the budget. These objectives will be further supported through the business models initiative.

29. Progress has been made on reducing banking risks through the phased implementation of secure electronic funds transfer for local payments, and 10 country offices had gone live as of November 2017. Work on this project will continue in 2018. The number of banks used by country offices has been reduced, while the number of banks used by headquarters remains at the same level as in prior years.

30. The percentage of unsupported or inadequately supported expenses and incorrect recording of advances or expenditures identified in Office of Audit and Investigations audits has decreased, from $8.8 million for 2015 to $6.15 million in 2016.

31. In 2016, a task force chaired by the Bureau for Management Services was established to evaluate the recovery of assets lost due to fraud and theft in recent years. The task force explored the challenges in asset recovery, as well as best practices and solutions, so as to increase the rate of recovery. Approximately $2.23 million was recovered in 2016, from seven cases reported in previous years. As of June 2017, UNDP had recovered approximately $42,000 (2.9 per cent) of the $1.4 million loss identified in 2016. One case, involving fraud, accounted for the majority of that loss. UNDP used all means possible, including obtaining voluntary surrender of the staff member's pension, to improve recovery, which required collaboration with United Nations system entities and national authorities on potential prosecution.

32. At the beginning of 2017, UNDP rolled out 'self-assertion' (attestation), with all heads of offices required to certify the performance of key controls in their offices. In May 2017, a consolidated code of ethics, outlining guidance on ethics issues, was distributed to all staff. All staff are required to complete ethics training, which has helped in increasing awareness. Enhancement and development of mandatory anti-fraud training materials is currently in progress, preparing for roll-out to staff by early 2018.

33. Further progress is required in this area, especially to fully implement host-to-host banking platforms for secure electronic funds transfer of local payments, and the establishment of a corporate compliance board to take over the functions presently being carried out by the task force. Management is working to have these actions completed by the second quarter of 2018.

F. Partnerships and resource mobilization

34. Under this priority, UNDP continues to diversify its regular resources funding sources, strengthen partner engagement, and improve donor intelligence and mapping to the organizational priorities.

35. Key management actions planned for this priority were: (a) development of country resource mobilization action plans; and (b) prioritization of corporate and country office resource mobilization efforts that feed into the action plans.

36. Contributions to regular resources were $618 million in 2016 and are expected to be $600 million in 2017, from 64 partners. All bureaus have completed resource mobilization mappings, and all country offices have resource mobilization strategies.

37. With support from funding partners, UNDP will work to change the mix and quality of resources, with the objective of transitioning from heavily earmarked to less earmarked funding and providing more agility to respond to development and crisis situations in the period 2018-2021.

38. Recognizing the changing development arena, UNDP will expand its catalogue of financial instruments to help programme countries access development finance opportunities and to provide partners with different modalities for investing in the 2030 Agenda for Sustainable Development.

39. Further progress is required in this area to transform the objectives included in the Strategic Plan to actionable activities that will reverse the decline in core resources and encourage the transition from heavily earmarked to less earmarked funding. The support of the funding partners will be essential to achieving significant progress on this priority.

G. Integration and operationalization of enterprise risk management

40. Under this priority, management actions planned to address these risks were: (a) roll out enterprise risk management training to all regions; (b) formally delegate authority for key senior

management staff in all offices; (c) attest and verify internal controls; and (d) regularly monitor corporate risks identified by the Risk Management Committee during the planning process.

41. Enterprise risk management training was provided to all regions in 2016 and early 2017. The annual workplans of all offices include a risk log. The risks from all offices are populated in the corporate planning system for reporting and monitoring purposes. UNDP prepares a quarterly report on corporate risks, which are considered by the Risk Management Committee chaired by the Associate Administrator.

42. Further progress is required to embed risk management practices into all the activities that UNDP implements, and into the day-to-day running of the organization. This includes effective risk-taking accompanied by robust risk management actions, escalation of risks, and managing risk exposure. Further actions to improve risk management are being taking with the guidance and leadership of the Risk Management Committee.

III. Status of audit recommendations of the Board of Auditors for the year ended 31 December 2016

43. For the year ended 31 December 2016, the Board of Auditors, in its audit report of UNDP (A/72/5/Add.1), issued 32 audit recommendations (2015: 33 recommendations). Of those, 12 were classified as 'high priority' while the remaining 20 were assigned a 'medium priority' rating. Management agreed with all recommendations issued.

44. Of the 32 recommendations issued, 16 per cent relate to project design, management and evaluation. Implementation of the recommendations will require continuous efforts by UNDP management to address underlying issues, primarily the need for project-level quality assurance; monitoring and evaluation; monitoring of activities carried out through implementing partners; and monitoring compliance.

45. Consistent with practices adopted in previous years, and as agreed with the Board of Auditors, UNDP has a phased approach for implementing the audit recommendations, with clear accountabilities for the implementation of each recommendation and target completion dates. The phased approach is based on the complexity and time required to resolve and discuss each issue with the Board of Auditors. It is important to note that implementation of the 2016 recommendations could start only after issuance of the final report of Board of Auditors in July 2017.

46. As of end-November 2017, four months after the formal release of the report of the Board of Auditors, UNDP was pleased to note that management actions had already commenced on all of the 32 audit recommendations to ensure full implementation by the target completion dates. Pursuant to decision 2010/9, a tabular listing of the status of audit recommendations implementation is available on the Executive Board web page.

47. The 32 audit recommendations issued by the Board of Auditors for the 2016 financial year have target completion dates in the first and second quarters of 2018. Five of the recommendations had been assessed by the Board of Auditors as implemented prior to the target completion date. The remaining 27 recommendations are in progress.

Table1. Implementation status by target completion dates – UNDP

Target completion date	Number	Implemented or closure requested	In progress	To be started	Total
2018, 1st quarter	12	2	10	0	12
2018, 2nd quarter	20	3	17	0	20
Grand total	**32**	**5**	**27**	**0**	**32**
Percentage	**100%**	**15%**	**85%**	**0**	**100%**

Table 2. Implementation status by priority – UNDP

Priority	Implemented or closure requested	In progress	To be started	Total
High	2	10	0	12
Medium	3	17	0	20
Total	**5**	**27**	**0**	**32**
Percentage of total	**15%**	**85%**	**0**	**100%**

48. For UNCDF, the Board of Auditors issued a total of eight audit recommendations for the 2016 financial year, with target completion dates in the first and second quarters of 2018. Of those, three had been assessed by the Board of Auditors as implemented prior to the implementation target date. The remaining five recommendations are in progress.

Table 3. Implementation status by target completion dates – UNCDF

Target completion date	Number	Implemented or closure requested	In progress	To be started	Total
2018, 1st quarter	2	1	1	0	2
2018, 2nd quarter	6	2	4	0	6
Grand total	**8**	**3**	**5**	**0**	**8**
Percentage	**100%**	**38%**	**62%**	**0**	**100%**

Table 4. Implementation status by priority – UNCDF

Priority	Implemented or closure requested	In progress	To be started	Total
High	1	1	0	2
Medium	2	4	0	6
Total	**3**	**5**	**0**	**8**
Percentage of total	**38%**	**62%**	**0**	**100 %**

IV. Status of audit recommendations of the United Nations Board of Auditors for the year ended 31 December 2015 and prior years

49. As of November 2017, of the 33 audit recommendations issued to UNDP for the 2015 financial year, 23 (70 per cent) were assessed as fully implemented by the Board of Auditors; six (21 per cent) were reiterated by the Board of Auditors; three (9 per cent) are in progress, with management actions implemented; and one was overtaken by events. All of the seven recommendations remaining from the 2014 and 2013 annual audits were assessed as fully implemented in 2016.

50. The six reiterated recommendations were being implemented as part of the 31 December 2016 report of the Board of Auditors. These recurring issues were prioritized in two of the top seven audit priorities under as follows; (a) implementing partner fiduciary and capacity risk management and; (b) the programme/project management and evaluation priorities. The reiterated recommendations were being implemented and addressed as explained in paragraphs 13, 16 and 17.

Table 5. Implementation status of previous years' recommendations - UNDP

Recommendation status	Number of recommendations	Percentage of total
Implemented	23	70 %

Overtaken by events	1	3%
Reiterated	6	18%
In progress	3	9%
Total	**33**	**100**

51. For UNCDF, as of November 2016, of the 16 recommendations reported as not implemented from previous year reports, 94 per cent were assessed as 'fully implemented' or 'overtaken by events' and thus closed, and six per cent (one recommendation) was under implementation.

Table 6. Implementation status of previous years' recommendations - UNCDF

Recommendation status	Number of recommendations	Percentage of total
Implemented	14	88%
Overtaken by events	1	6%
Reiterated	0	0
In progress	1	6%
Total	**16**	**100%**

V. Conclusion

52. UNDP and UNCDF are pleased to receive an unqualified audit opinion from the Board of Auditors. This is a great testament to the hard work of all staff across UNDP and UNCDF offices globally. The top seven audit-related management priorities for 2016-2017 and the actions required to address them establish a framework for UNDP management to respond to current and emerging challenges. The Executive Group and the Organizational Performance Group will closely monitor progress made in addressing audit-related management priorities, with a view to ensuring that UNDP continues to enhance productivity, accountability, transparency and performance while making every effort to close the recommendations of the Board of Auditors in a timely manner.

Annex 1

UNDP top seven audit-related management priorities for the 2016–2017 period and assessment of progress

1. Implementing partner fiduciary and capacity management	
2. Procurement oversight and fraud mitigation strategies	
3. Financial management and sustainability of country offices	
4. Integration and operationalization of enterprise risk management	

5. Programme/project management and evaluation	
6. Human resources management and appropriate organizational structures	
7. Partnerships and resource mobilization	

Legend used	Colour code
Conditions effectively addressed	5
Good improvements noted. On target	4
Improvements noted. More work remains	3
Remedial actions yet to be fully taken or intended effects of actions yet to be fully realized or inherent risks to be mitigated	2
Conditions worsened	